

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Farmington Community Library	County Oakland
Audit Date 6/30/05	Opinion Date 8/26/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1-968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91 ], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 1 00% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Plante & Moran, PLLC			
Street Address 111 East Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature 			

**Annual Financial Report**  
**Farmington Community Library**  
**For the Year Ended June 30, 2005**  
*with Independent Auditors' Report*

**Farmington Community Library, Michigan**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2005**

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**Farmington Community Library, Michigan  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2005**

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## **Financial Section**

*Independent Auditors' Report*

To the Board of Trustees of  
Farmington Community Library:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Farmington Community Library, Michigan (Library) as of June 30, 2005, and for the year then ended, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the Library's 2004 financial statements which were audited by other auditors and whose report dated August 25, 2004 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Farmington Community Library, Michigan at June 30, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 8, and 34 through 35 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. For the management's discussion and analysis, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Farmington Community Library's basic financial statements. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*PLANTE & MORAN, PLLC*

Certified Public Accountants  
Flint Office

August 26, 2005

## **Management's Discussion and Analysis**



## **Farmington Community Library Management's Discussion and Analysis**

This section of Farmington Community Library annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Library's financial statements, which follow this section.

### **Governmental Accounting Standards Board Statement No.34**

Farmington Community Library has prepared this report in accordance with the Governmental Accounting Standards Board Statement No. 34 reporting requirement. Known as GASB 34, the new reporting requirement includes this letter, provides a comparative analysis between the current-year and prior-year financial information. The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

### **Financial Highlights**

- The Library's total assets are \$16.4 million and net assets amounted to \$7.5 million.
- During the year, the Library's governmental revenues generated in taxes, City shared revenues, and other revenues were \$737,661 greater than expenses for Library operations.
- General fund revenues exceeded expenditures by \$31,923, creating a total fund balance of \$119,193 in the General Fund.
- Millage Special Revenue Fund revenues exceeded expenditures by \$492,806 resulting in a total fund balance of \$843,930.

### **Overview of the Financial Statements**

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Library:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Library's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Library government, reporting the Library's operations in more detail than the government-wide statements.
  - \* The governmental fund statements tell how general government services were financed in the short term as well as what remains for future spending.
  - \* Unlike other governmental entities, the library has no activities requiring Proprietary fund statements.
  - \* Fiduciary fund statements provide information about the financial relationships in which the Library acts as an agent that administers the fund for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and presented in single columns in the basic financial statements.

Table 1 summarizes the major features of the Library's financial statements, including the portion of the Library government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 Major Features of Farmington Community Library  
Government-wide and Fund Financial Statements  
Fund Statements**

<b>Type of Statements</b>	<b><u>Government-wide</u></b>	<b><u>Governmental Funds</u></b>
Scope	Entire Library government (except fiduciary funds)	The activities of the Library that are not proprietary or fiduciary in nature
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

### **Government-wide Statements**

The government-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Library's net assets and how they have changed. Net assets – the difference between the Library's assets and liabilities – is one way to measure the Library's financial health or position.

- Over time, increases or decreases in the Library's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Library you need to consider additional non-financial factors such as changes in the Library's property tax base.

The government-wide financial statements of the Library are classified into the following category:

- Governmental activities – The Library's basic services are included here. Property taxes, shared revenue from the member Cities (Farmington and Farmington Hills), and state grants finance most of these activities.

### Farmington Community Library's Condensed Balance Sheet

	Governmental Activities 2005	Governmental Activities 2004
Current and other assets	\$ 1,530,034	\$ 1,010,480
Capital assets	<u>14,888,542</u>	<u>15,557,552</u>
Total assets	<u>\$16,418,576</u>	<u>\$16,568,032</u>
Current and other liabilities	\$ 232,487	\$ 261,284
Long-term liabilities	<u>8,650,664</u>	<u>9,508,984</u>
Total liabilities	<u>8,883,151</u>	<u>9,770,268</u>
Net assets:		
Invested in capital assets, net of related debt	6,388,542	6,217,552
Unrestricted	<u>1,146,883</u>	<u>580,212</u>
Total net assets	<u>7,535,425</u>	<u>6,797,764</u>
Total liabilities and net assets	<u>\$16,418,576</u>	<u>\$16,568,032</u>

It can be seen that total net assets for the Library increased \$737,661 during 2005. Most of the increase is due to operating revenues over expenditures during the year.

## Governmental Statement of Activities

	Governmental activities	Governmental activities
	2005	2004
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 195,281	\$ 202,650
Operating grants and contributions	124,277	240,045
Capital grants and contributions	-	-
General revenues:		
Property taxes	2,529,964	2,447,993
Shared revenues- cities	3,229,241	3,396,994
Other	31,925	21,786
Total revenues	<u>6,110,688</u>	<u>6,309,468</u>
<b>Expenses:</b>		
General government	5,000,994	5,366,693
Interest on long term debt	<u>372,033</u>	<u>398,159</u>
Total expenses	<u>5,373,027</u>	<u>5,764,852</u>
Increase (decrease) net assets	737,661	544,616
Net assets - beginning of year	<u>6,797,764</u>	<u>6,253,148</u>
Net assets - end of year	<u>\$ 7,535,425</u>	<u>\$ 6,797,764</u>

Total revenues decreased \$198,780 mainly as a result of a decrease in shared revenues from the member cities. Operating expenses for the Library were reduced from \$5,366,693 to \$5,000,994 to meet the reduction in the revenues.

## Fund Financial Statements

The fund financial statements provide more detailed information about the Library's most significant funds – not the Library as a whole. Funds are accounting devices that the Library uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Library Board establishes other funds to control and manage money for particular purposes (like the Employee Benefit Fund) or to show that it is properly using certain taxes and grants.

The Library has two kinds of funds:

- Governmental funds – Most of the Library's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.
- Fiduciary fund – The Library maintains a fiduciary fund for the Metro Net Agency Activities.

### **Financial Analysis of the Library as a Whole**

#### **Changes in Net Assets:**

The Library's combined net assets are \$7,535,425. In comparison, last year net assets were \$6,797,764, an increase of \$767,661. The increase was due primarily to general revenues exceeding operating expenses.

#### **Governmental Activities:**

The Library's total governmental activity expenses were \$5,373,027. There were charges for services and operating grants received of \$195,281 and \$124,277, respectively. General revenues consisting of millage property taxes (\$2,529,964), shared revenues or appropriations from the City of Farmington and City of Farmington Hills (\$3,229,241) and investments earnings (\$31,925) were also received. These activities resulted in an increase in net assets of \$737,661, for a 10.8% increase.

### **Financial Analysis of the Library's Funds**

As the Library completed the year, its governmental funds reported a combined fund balance of \$1,276,922. The fund is reserved for Endowment purposes in the amount of \$253,742, and is designated for capital improvements of \$37,452, employee benefits of \$22,605, and library development of \$670,134, debt retirement of \$173,796, leaving undesignated fund balance of \$119,193.

### **General Fund Budgetary Highlights**

#### **Capital Assets**

At the end of 2005, the Library had invested \$6,388,542 in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB).

#### **Long-term Debt**

At year-end the Library had \$8,500,000 in bonds and notes outstanding for governmental activities.

#### **Budgets**

There were no significant changes between the original and amended budgets for all budgeted funds.

The Millage fund spent below amounts budgeted by significant amounts in the "Improved Collections" and "Capital Improvements" line items mainly due to the timing of commitments to expenditures in these categories.

## **Economic Factors and Next Year's Budgets and Rates**

- Property tax revenue will continue to be strong as the surrounding areas continue to see growth.
- Inflationary trends in the region compare favorably to national indices.
- The Library's budget request for FY 2004-05 was not approved using the funding formula of .8144 mill that had been earmarked for library operations since 1998. Instead the Library was asked to present a budget for an appropriation amount that was another 5% reduction of the appropriation decreased in 2003-4. The total reduction of anticipated revenue was \$420,154. Library Trustees reduced hours of operation, eliminated staff positions to a level experienced in 1997/98 prior to doubling the size of the main library, and cut the budgets for items such as books, supplies, and travel.

Financial stability for operating monies through a dedicated millage is the primary goal of the Trustee's strategic plan. As a district library, the current operational funding method through appropriations is an anomaly that has proven to be unreliable. Ninety-five percent of district libraries have a dedicated operating millage.

In response to the 2004-5 budget reductions and anticipating future cuts, the Library Board of Trustees passed a resolution on January 5, 2005 asking for voter approval of a dedicated operating millage of 1 mill for 20 years at a May 3, 2005 election. This proposal passed, with approval of 68.23% of voters in Farmington, and 63.4% in Farmington Hills. The Library will levy 1 mill July 1, 2005 with the summer taxes. This is in addition to the .6 mill (.5856 with Headlee reduction) the Library levies each December, until 2013.

The financial security for operating monies has been accomplished with voter approval of the May 3, 2005 millage proposal. As a result, the Library can move forward with the objectives outlined in the Farmington Community Library Strategic Plan 2005-2008, as follows:

- Debt retirement of the \$13 million bond is the first obligation of the library with priority payment.
- The development of a fund balance that is 10% of operating funds is recommended by the auditor, to accommodate cash flow requirements.
- The Board will establish a fund to offset the liabilities relating to long term debt, including fringe benefits to retirees, accumulated compensated absences and sick leave and vacation payable upon termination.
- The Capital Reserve Fund will be funded to cover costs for future maintenance and replacement of equipment, with a breakdown for technology and automation.

Please note that the high fund balance is a result of deferred spending due to the uncertainty of the election results, and following the election, due to concern that we would experience a negative cash flow for July and August expenses before receipt of the summer millage.

## **Requests for information**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library Director, 32737 West Twelve Mile Road, Farmington Hills, MI 48334-3302.

## Basic Financial Statements

# **Government-wide Financial Statements**



**Farmington Community Library  
Statement of Net Assets  
June 30, 2005**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Cash and equivalents	\$ 1,136,273
Investments	253,742
Accounts receivable	74,697
Prepaid items	49,027
Investment in joint venture	16,295
Capital assets (net of accumulated depreciation)	<u>14,888,542</u>
Total assets	<u><u>\$ 16,418,576</u></u>

(continued)

*Notes to the financial statements are  
an integral part of this statement.*

**Farmington Community Library  
Statement of Net Assets (continued)  
June 30, 2005**

	<u><b>Governmental Activities</b></u>
<b>Liabilities and Net Assets</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 154,527
Accrued liabilities	77,960
Noncurrent liabilities:	
Due within one year	885,000
Due in more than one year	<u>7,765,664</u>
<b>Total liabilities</b>	<u><b>8,883,151</b></u>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	6,388,542
Unrestricted	<u>1,146,883</u>
<b>Total net assets</b>	<u><b>7,535,425</b></u>
<b>Total liabilities and net assets</b>	<u><u><b>\$ 16,418,576</b></u></u>

**Farmington Community Library  
Statement of Activities  
For the Year Ended June 30, 2005**

Functions\Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary government</b>			
Governmental activities:			
General government-library operations	\$ 5,000,994	\$ 195,281	\$ 124,277
Interest on long-term debt	372,033	-	-
<b>Total governmental activities</b>	<b>\$ 5,373,027</b>	<b>\$ 195,281</b>	<b>\$ 124,277</b>
 General revenues:			
Property taxes - special millage			
Shared revenues - cities			
Unrestricted investment earnings			
<b>Total general revenues</b>			
 Change in net assets			
Net assets - beginning			
<b>Net assets - ending</b>			

*Notes to the financial statements are  
an integral part of this statement.*

**Net (Expense)  
Revenue and  
Changes in  
Net Assets**

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**Governmental  
Activities**

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\$ (4,681,436)  
(372,033)  

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(5,053,469)  

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2,529,964  
3,229,241  

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31,925  

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5,791,130  

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737,661

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6,797,764  

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\$ 7,535,425  

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## **Fund Financial Statements**

**Farmington Community Library  
Balance Sheet  
Governmental Funds  
June 30, 2005**

	General	Millage Special Revenue	Endowment Permanent Fund
<b>Assets</b>			
Cash and cash equivalents	\$ 387,356	\$ 688,860	\$ -
Investments	-	-	253,742
Accounts receivable	74,697	-	-
Due from other funds	-	155,070	-
Prepaid expenses	49,027	-	-
Total assets	<u>\$ 511,080</u>	<u>\$ 843,930</u>	<u>\$ 253,742</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 154,527	\$ -	\$ -
Accrued liabilities	77,960	-	-
Deferred revenue	4,330	-	-
Due to other funds	155,070	-	-
Total liabilities	<u>391,887</u>	<u>-</u>	<u>-</u>
<b>Fund balances:</b>			
Reserved for other purposes	-	-	253,742
Unreserved reported in:			
Designated for capital improvements	-	-	-
Designated for employee benefits	-	-	-
Designated for library development	-	670,134	-
Designated for debt retirement	-	173,796	-
Undesignated	119,193	-	-
Total fund balances	<u>119,193</u>	<u>843,930</u>	<u>253,742</u>
Total liabilities and fund balances	<u>\$ 511,080</u>	<u>\$ 843,930</u>	<u>\$ 253,742</u>

*Notes to the financial statements are  
an integral part of this statement.*

<b>Other Governmental Funds</b>		<b>Total</b>
\$	60,057	\$ 1,136,273
	-	253,742
	-	74,697
	-	155,070
	-	49,027
<b>\$</b>	<b>60,057</b>	<b>\$ 1,668,809</b>

\$	-	\$ 154,527
	-	77,960
	-	4,330
	-	155,070
	-	391,887

	-	253,742
	37,452	37,452
	22,605	22,605
	-	670,134
	-	173,796
	-	119,193
	60,057	1,276,922
<b>\$</b>	<b>60,057</b>	<b>\$ 1,668,809</b>

**Farmington Community Library  
Reconciliation of the Fund Balance as Reported in the  
Governmental Balance Sheet to the Statement of Net Assets  
For the Year Ended June 30, 2005**

Total Governmental Funds Fund balance as reported in the Balance Sheet	
Governmental Funds	\$ 1,276,922
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,888,542
Investment in joint venture not included as an asset in the governmental funds	16,295
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,330
Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.	<u>(8,650,664)</u>
Net Assets - Governmental Activities	<u><u>\$ 7,535,425</u></u>



**Farmington Community Library  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2005**

	General Fund	Millage Special Revenue	Endowment Permanent Fund
<b>Revenues:</b>			
Property taxes	\$ -	\$ 2,529,964	\$ -
Intergovernmental revenues:			
City of Farmington Hills	2,752,708	-	-
City of Farmington	263,298	-	-
State of Michigan	213,235	-	-
Memorials and gifts	113,453	-	1,000
Investment income	3,406	15,493	12,026
Grants	4,250	-	-
Fines	103,244	-	-
Other	89,391	-	-
Total revenues	3,542,985	2,545,457	13,026
<b>Expenditures:</b>			
General government:			
Salaries	1,851,136	320,922	-
Fringe benefits	481,274	190,155	-
Professional services	80,000	44,337	-
Utilities	167,933	27,575	-
Automation	43,000	-	-
Insurance	84,009	-	-
Repairs and maintenance	80,206	55,710	-
Gift fund purchase	118,194	-	-
Grants	4,250	-	-
Improved collections	-	79,319	-
Interest expense	-	523	-
Other	225,135	8,715	-
Metro Net	39,844	-	-
Capital outlay:			
Capital improvements	-	113,362	-
Equipment and furniture	-	-	-
Books, periodicals, and library materials	318,581	-	-
Debt service:			
Principal and interest retirement	-	1,212,033	-
Total expenditures	3,493,562	2,052,651	-
Excess (deficiency) of revenues over expenditures	49,423	492,806	13,026
<b>Other financing sources (uses):</b>			
Operating transfers in	-	-	-
Operating transfers out	(17,500)	-	-
Total other financing uses	(17,500)	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	31,923	492,806	13,026
Fund balance - beginning of year	87,270	351,124	240,716
Fund balance - end of year	\$ 119,193	\$ 843,930	\$ 253,742

*Notes to the financial statements are  
an integral part of this statement.*

Other Governmental Funds		Total
\$	-	\$ 2,529,964
	-	2,752,708
	-	263,298
	-	213,235
	-	114,453
	1,000	31,925
	-	4,250
	-	103,244
	-	89,391
	1,000	6,102,468
	-	2,172,058
	16,124	687,553
	-	124,337
	-	195,508
	-	43,000
	-	84,009
	-	135,916
	-	118,194
	-	4,250
	-	79,319
	-	523
	-	233,850
	-	39,844
	-	113,362
	-	-
	-	318,581
	-	1,212,033
	16,124	5,562,337
	(15,124)	540,131
	17,500	17,500
	-	(17,500)
	17,500	-
	2,376	540,131
	57,681	736,791
\$	60,057	\$ 1,276,922

**Farmington Community Library  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2005**

Amounts reported for governmental activities in the statement of activities (page 9)  
are different because:

Net change in fund balances - total governmental funds (page 15)	\$ 540,131
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period	(670,693)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,330
Investments in joint ventures not included in governmental funds	5,574
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	858,319
	<u>\$ 737,661</u>

**Farmington Community Library  
Balance Sheet  
Fiduciary Funds  
June 30, 2005**

	<u><b>Metro Net Agency</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 51,841
Accounts receivable	<u>78,520</u>
Total assets	<u><u>\$ 130,361</u></u>
<b>Liabilities and Fund Balances</b>	
Liabilities:	
Due to members	<u>\$ 130,361</u>
Total liabilities	<u><u>130,361</u></u>

*Notes to the financial statements are  
an integral part of this statement.*

## **Notes to Basic Financial Statements**

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies**

The accounting policies of the Farmington Community Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Farmington Community Library.

**A. Reporting entity**

The Farmington Community Library (the "Library") was established in 1956 and serves the Farmington communities through two libraries located in Farmington and Farmington Hills. The Library is governed by an eight-member Board of Trustees and an appointed Library Director. It provides resources for the informational, educational, cultural, and recreational needs of its patrons. The residents of both cities approved an independent tax millage in 2005 that allows the Library to no longer be dependent on subsidies from the Cities after the year ended June 30, 2005.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. There are no component units for the Library.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Library currently does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library currently has no proprietary or enterprise funds.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies – (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Millage Fund is used for tax levies restricted to fund Library development and pays the debt service on the 1998 and 2003 Library Building and Site Bonds.

The Endowment Permanent Fund receives donations restricted as to use. Generally, only the interest can be used for Library operations. The Fund was created in 1992 by Board resolution.

Additionally, the government reports the following fund types:

Special Revenue Funds - These funds are used to account for specific governmental revenues that are legally restricted to expenditure for particular purposes.

Fiduciary Fund – This fund, used to account for assets held in a trust or as an agent for others, includes the Metro Net Agency Fund.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies – (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation – (continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits**

The Library's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Investments:**

Investments for the Library are stated at fair value based on quoted market prices. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

**3. Receivables and payables**

In general, outstanding balance between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles.

**4. Prepaid items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.



**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity - (continued)**

**5. Capital assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39-15
Vehicles	5
Equipment and furniture	7-3

**6. Employee vacation and sick leave**

Library employees have a vested right to receive payment for unused vacation and sick leave under conditions specified in the personnel policy manual. All vacation and applicable sick leave is accrued when incurred at the government-wide. A liability for these amounts is reported in governmental funds only for employee terminations at year end.

**7. Long-term obligations**

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the statement of net assets.

- Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
- The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**9. Permanent endowment**

Generally, only the interest in the endowment permanent fund for which restricted donations have been received can be used for Library projects as periodically determined by the Library Board. Currently, the entire net assets are shown as "restricted for other purposes."

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity - (continued)**

**10. Property taxes**

Property taxes attach as an enforceable lien on property as of December 31 each year. Library taxes, levied and immediately due July 1, are collected by the Cities of Farmington and Farmington Hills without penalty through September 15, and with penalty thereafter. Library property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are budgeted and available for the financing of operations.

The 2004 total taxable valuation for the Farmington and Farmington Hills communities totaled \$4.332 billion (a portion of which is abated and a portion of which is captured by the DDA and TIFA), on which taxes levied consisted of .5856 mills for operating purposes. This resulted in \$2,529,964 which is recognized in the millage fund.

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds and notes payable	\$8,500,000
Compensated absences	<u>150,664</u>
Net adjustment to reduce <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u>\$8,650,664</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 19,931
Depreciation expense – net	<u>(690,624)</u>
Net adjustment to decrease <i>net changes in fund balances -</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	<u>\$(670,693)</u>

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**III. Stewardship, compliance, and accountability**

**A. Budgetary information**

The Library employs the following procedures in establishing the budgetary data reflected in the financial statements:

- In March, the Library Director submits to the Board of Trustees and the Cities of Farmington and Farmington Hills, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Appropriations are made on an object (line-item) basis. Beginning in July 1, 2005 the Library will no longer be required to submit its budget to the member cities as an independent tax millage was approved by the voters making the Library an independent entity and not dependent on subsidies from the cities.
- A public hearing is conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of a resolution by the Board of Trustees.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Fund Type.
- Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budget amounts included in the financial statements are as originally adopted or as amended by the Board during the year. The legal level of budgetary control adopted by the governing body is the line item level. Individual amendments were not material in relation to the original appropriations. Appropriations unused at June 30 are not carried forward to the following year.

**B. Excess of expenditures over appropriations**

The following funds incurred expenditures in excess of appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over Budget</u>
Millage Fund:			
Fringe benefits	\$180,000	\$190,155	\$ 10,155
Interest expense	-	523	523

**IV. Detailed notes on all funds**

**A. Deposits and investments**

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan association that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**A. Deposits and investments – (continued)**

The Endowment Permanent Fund is also authorized by Michigan Public Act 157 of 1976 and the Endowment Fund Policy, as amended, to invest in:

- Cash
- bonds, bills or notes of the United States; obligations, the principal of and interest on which are fully guaranteed by the United States; obligations of the State of Michigan; or securities issued or guaranteed by agencies or instrumentalities of the United States Government.
- Commercial paper rate A<sub>1</sub>/P<sub>2</sub>, bankers acceptances, certificates of deposit and United States Governmental repurchase agreements.
- Mutual funds composed of stocks, bonds, debentures and other securities of profit or nonprofit corporations and those investment vehicles which are guaranteed by agencies or instrumentalities of the United States Government.

The Library has designated four financial institutions for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the above mentioned investment vehicles. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$65,317 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Library's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Governmental security money market		
mutual funds	\$927,096	Counterparty
Stock mutual fund (endowment)	110,068	Counterparty's trust department

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**A. Deposits and investments – (continued)**

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity</u>
U.S. government or agency bond or note pool	\$ 39,226	Not available

Concentration of credit risk:

The Library places no limit on the amount it may invest in any one issuer. None of the Library's investments are concentrated in any one issuer more than 5 percent.

**B. Capital assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 138,052	\$ -	\$ -	\$ 138,052
Total capital assets, not being depreciated	138,052	-	-	138,052
Capital assets, being depreciated:				
Buildings and sites	16,630,375	-	-	16,630,375
Furniture and equipment	2,370,372	19,931	(71,662)	2,318,641
Vehicles	57,294	-	-	57,294
Total capital assets being depreciated	19,058,041	19,931	(71,662)	19,006,310
Less accumulated depreciation	3,638,541	719,847	(40,756)	4,317,632
Total capital assets, being depreciated, net	15,419,500	(699,916)	(30,906)	14,688,678
Governmental activities capital assets, net	\$15,557,552	\$(699,916)	\$ (30,906)	\$14,826,730

The composition of interfund balances as of June 30, 2005 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Millage Fund	General Fund	\$155,070

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**C. Interfund receivables, payables, and transfers**

	<u>Transfer In</u>
	Non-major
	Governmental
	Employee
	<u>Benefit Fund</u>
Transfer out:	
General Fund	<u>\$ 17,500</u>

Transfer between funds was primarily for operating purposes.

**D. Long-term debt**

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. The tax levy is used to liquidate the long-term debt. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

Long-term liability activity for the year ended June 30, 2005 can be summarized as follows:

	<u>General Obligation Bonds</u>	<u>Accumulated Annual and Sick Pay</u>	<u>Total</u>
Governmental activities:			
Debt at July 1, 2004	\$9,340,000	\$168,983	\$9,508,983
Principal payments made	(840,000)	-	(840,000)
Net change – sick pay	-	(18,319)	(18,319)
Total governmental activities long-term debt	<u>\$8,500,000</u>	<u>\$150,664</u>	<u>\$8,650,664</u>

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Original Amount of Issue</u>	<u>Balance at June 30, 2004</u>	<u>Issuances (Retirements) During Year</u>
Governmental activities:					
1998 Library Building and Site Bonds	2013	3.5-4.4%	\$12,000,000	\$8,355,000	\$(755,000)
2003 Library Building and Site Bonds	2013	1.5-3.1	1,050,000	985,000	(85,000)
Accrued annual and sick pay				168,983	(18,319)
Total governmental activities				<u>\$9,508,983</u>	<u>\$(858,319)</u>

Balance at June 30, <u>2005</u>	Due Within One <u>Year</u>
\$7,600,000	\$795,000
900,000	90,000
150,664	-
<u>\$8,650,664</u>	<u>\$885,000</u>

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds - (continued)**

**D. Long-term debt - (continued)**

Annual debt service requirements to maturity for the above obligations are as follows:

Year End <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 885,000	\$ 341,164
2007	930,000	308,012
2008	980,000	272,714
2009	1,030,000	235,308
2010	1,085,000	194,916
2011-2013	3,590,000	309,216
Total	<u>\$8,500,000</u>	<u>\$1,661,330</u>

**V. Other information**

**A. Retirement plans**

The Library has two retirement plans in existence. One is a defined benefit plan and the other is a defined contribution plan. Each are described in the following note.

**1. Defined benefit plan:**

The Farmington Community Library participates in the Michigan Municipal Employees Retirement System (MERS) which is an agent multiple-employer public employee retirement system (PERS) that is administered by Michigan Employees Retirement System (an independent not-for-profit organization). The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The plan is included in the annual report of MERS which can be obtained from the offices of MERS in Lansing Michigan. The Library has no fiduciary responsibility for the plan.

All regular employees of the Library hired before July 15, 1999 and working 80 hours or more per month are eligible to participate in the plan. As of December 31, 2004, the Library had 24 covered employees, 3 inactive vested members, and 18 retirees and beneficiaries. Total and covered payrolls for the year ended June 30, 2005, were \$2,163,483 and \$1,051,740, respectively.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 55 with 25 or more years of service. Election of early retirement is subject to reduction of benefits as outlined below.

Participants are entitled to a retirement benefit equal to the credited service at the time of membership termination multiplied by 2.0%, of the member's final average compensation (F.A.C.). The retirement allowance is reduced 1/2% of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available.



**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**A. Retirement plans – (continued)**

**1. Defined benefit plan: - (continued)**

**Defined benefit contributions:**

The plan provides that the employer/employees contribute amounts necessary to fund the actuarially determined benefits. Employees are required to contribute five percent of salary to the plan. The Library makes employer contributions in accordance with funding requirements determined by MERS' actuary. Benefit provisions and contribution obligations have been established by the contract.

**Actuarial assumptions:**

The significant actuarial assumptions used to compute the actuarial accrued liabilities are as follows:

	<u>Library</u>
Actuarial valuation date	December 31, 2004
Actuarial cost method	Entry age – Normal
Amortization method	Level percentage of payroll
Remaining amortization period (weighted)	24/10 years depending on group
Asset valuation method	(1)
Actuarial assumptions:	
Investment rate of return	8.0
Projected salary increase	(2)

(1) 5 year smoothed market

(2) 4.5% wage inflation plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. The range of the percentages are from 12.9% for a 20 year-old participant to 4.5% for a 60 year-old participant.

Retirement plan - defined benefit - Michigan Municipal Employee Retirement System:

Annual pension cost

The Library's Annual Required Contribution (ARC) and Annual Pension Cost (APC) for the year ended June 30, 2005 was \$99,049. All employer contributions made were equal to required contributions by MERS. There was no accumulated Net Pension Obligation (NPO) at June 30, 2005. The Annual Pension Cost (APC), percentage of APC contributed, and Net Pension Obligation (NPO) for the year ended June 30, 2005, 2004, and 2003 are summarized as follows:

<u>Plan</u> <u>Year</u> <u>End</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>% of</u> <u>APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/03	12/31/02	\$ 62,877	100.0%	\$ -
6/30/04	12/31/03	63,117	100.0	-
6/30/05	12/31/04	99,049	100.0	-

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**A. Retirement plans – (continued)**

**1. Defined benefit plan: - (continued)**

**Pension Plan**  
**Schedule of Funding Progress**

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial	Actuarial	Actuarial	Percent	Unfunded	Annual	UAAL
Valuation	Value of	Accrued	Funded	(Funding Excess)	Covered	as % of
Date	Plan	Liability	(1)/(2)	AAL	(Valuation)	Covered
<u>12/31</u>	<u>Assets</u>	<u>Liability</u>		(UAAL)	<u>Payroll</u>	<u>(4)/(5)</u>
				(1)-(2)		
2004	\$5,745,179	\$5,823,615	98.7%	\$ 78,436	\$ 959,072	8.0%
2003	5,363,814	5,542,202	97.0	178,388	1,133,183	16.0
2002	4,998,826	5,328,712	94.0	329,886	1,159,074	28.0
2001	4,831,694	4,835,241	99.9	3,547	1,103,778	0.0
2000	4,501,512	4,458,454	101.0	(43,058)	1,074,740	0.0
1999	4,381,726	4,508,953	97.0	127,227	1,501,252	8.0
1998	3,790,967	4,003,818	95.0	212,851	1,423,312	15.0
1997	3,372,421	3,568,732	94.0	196,311	1,312,530	15.0

**2. Defined contribution plan:**

During the year ended June 30, 2000, the Farmington Community Library began a defined contribution pension plan. All regular employees of the Library hired after July 15, 1999, and working 80 hours or more per month are eligible to participate in the plan. Employees hired before July 15, 1999 had a one-time option to remain with the MERS Defined Benefit Pension Plan, or to transfer their retirement accruals to the Defined Contribution Plan. The transfer occurred on March 29, 2000.

**Defined contribution plan contributions:**

The plan provides that the Library will contribute 5% of eligible employee's gross wages to the plan, and employees may contribute after-tax wages to the plan. The contributions are self-directed by the employees among several investment options. Contributions are fully vested at the time of the contribution. Employees may withdraw pension accruals upon termination from the Library. For the year ended June 30, 2004, employer contributions to the plan were \$42,449, and employee contributions to the plan were \$7,081.

**B. Risk management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Library has purchased commercial insurance coverage for all claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Library maintains a self-insured plan for dental, optical, and hearing impairment medical claims. The Library reimburses each employee for 75% of claims up to a maximum of \$1,200 out of pocket expense less \$25 deductible per year. Total claims expense for the year ended June 30, 2005 amounted to \$16,124. Liability for unpaid claims was immaterial at June 30, 2005.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information -- (continued)**

**C. Joint venture -- Metro Net**

The Metro Net Library Consortium (the "Consortium" or "Metro Net") is a Michigan nonprofit corporation incorporated in January 1994, whose members are eight public libraries: Baldwin (Birmingham), Bloomfield Township, Canton, Farmington Community, Independence Township, Rochester Hills, Southfield, and West Bloomfield Township. The Consortium was founded to promote resource sharing by creating a flexible environment conducive to experimentation, technology innovations and progressive approaches to library service. For a fee, other libraries may join the Consortium as subscribers to the Metro Net services.

The Farmington Community Library is the principal office of Metro Net, with the Farmington Community Library director serving as the Consortium's fiscal agent and on the Consortium's Board of Directors. The financial activities of Metro Net are reported in the Fiduciary Agency Fund.

Total Metro Net assets held by the Library as fiscal agent at June 30, 2005 amounted to \$130,361. The Library's share of current contributions for 2005 was \$39,844. Internal statements for the Metro Net are on file at the Library's main office.

## **Required Supplementary Information**

**Farmington Community Library  
General Fund  
Schedule of Revenues, Expenditures,  
and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2005**

	<b>Budgeted</b>		<b>Actual</b>	<b>Variance With Final Budget- Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental revenues:				
City of Farmington Hills	\$ 2,752,708	\$ 2,752,708	\$ 2,752,708	\$ -
City of Farmington	262,973	262,973	263,298	325
State of Michigan	192,627	192,627	213,235	20,608
Memorials and gifts	107,746	107,746	113,453	5,707
Interest and dividends	1,700	1,700	3,406	1,706
Grants	4,250	4,250	4,250	-
Fines	101,000	101,000	103,244	2,244
Other	78,641	78,641	89,391	10,750
<b>Total revenues</b>	<b>3,501,645</b>	<b>3,501,645</b>	<b>3,542,985</b>	<b>41,340</b>
<b>Expenditures:</b>				
General government:				
Salaries	1,851,136	1,851,136	1,851,136	-
Fringe benefits	495,679	495,679	481,274	14,405
Professional services	80,000	80,000	80,000	-
Utilities	170,000	170,000	167,933	2,067
Automation	43,000	43,000	43,000	-
Insurance	85,000	85,000	84,009	991
Repairs and maintenance	87,000	87,000	80,206	6,794
Gift fund purchase	118,196	118,196	118,194	2
Grants	4,250	4,250	4,250	-
Other	244,600	244,600	225,135	19,465
Metro Net	40,000	40,000	39,844	156
Capital outlay:				
Books, periodicals, and library materials	323,223	323,223	318,581	4,642
<b>Total expenditures</b>	<b>3,542,084</b>	<b>3,542,084</b>	<b>3,493,562</b>	<b>48,522</b>
Excess (deficiency) of revenues over expenditures	(40,439)	(40,439)	49,423	89,862
<b>Other financing sources (uses):</b>				
Operating transfers out	(17,500)	(17,500)	(17,500)	-
<b>Total other financing uses</b>	<b>(17,500)</b>	<b>(17,500)</b>	<b>(17,500)</b>	<b>-</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(57,939)	(57,939)	31,923	89,862
<b>Fund balance - beginning of year</b>	<b>87,270</b>	<b>87,270</b>	<b>87,270</b>	<b>-</b>
<b>Fund balance - end of year</b>	<b>\$ 29,331</b>	<b>\$ 29,331</b>	<b>\$ 119,193</b>	<b>\$ 89,862</b>

**Farmington Community Library  
Millage Fund  
Schedule of Revenues, Expenditures,  
and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2005**

	Millage Fund			
	Budgeted		Actual	Variance- Favorable (Unfavorable)
	Original	Amended		
<b>Revenues:</b>				
Property taxes	\$ 2,519,440	\$ 2,519,440	\$ 2,529,964	\$ 10,524
Interest	5,000	5,000	15,493	10,493
Total revenues	2,524,440	2,524,440	2,545,457	21,017
<b>Expenditures:</b>				
General government:				
Salaries	351,150	351,150	320,922	30,228
Fringe benefits	175,978	180,000	190,155	(10,155)
Professional services	80,000	80,000	44,337	35,663
Utilities	80,000	80,000	27,575	52,425
Repair and maintenance	30,000	60,000	55,710	4,290
Improved collections	150,000	150,000	79,319	70,681
Interest expense	-	-	523	(523)
Automation / Technology	10,000	10,000	-	10,000
Other	20,000	20,000	8,715	11,285
Capital outlay:				
Capital improvements	224,672	224,672	113,362	111,310
Debt service:				
Principal and interest retirement	1,211,883	1,212,833	1,212,033	800
Total expenditures	2,333,683	2,368,655	2,052,651	316,004
Excess (deficiency) of revenues over expenditures	190,757	155,785	492,806	337,021
<b>Other financing uses:</b>				
Operating transfers in	-	-	-	-
Total other uses	-	-	-	-
Excess (deficiency) of revenue and other sources over expenditures	190,757	155,785	492,806	337,021
Fund balance - beginning of year	351,124	351,124	351,124	-
Fund balance - end of year	\$ 541,881	\$ 506,909	\$ 843,930	\$ 337,021

## **Combining Fund Statements and Fund Descriptions**

## **Other Supplemental Information**



**Farmington Community Library, Michigan**  
**Non-Major Governmental Funds**  
**Summary Descriptions**  
**June 30, 2005**

**Special Revenue Funds**

Employee Benefit Fund - This fund accounts for employee benefits financed by the General Fund.

Capital Reserve Fund - This fund accounts for monies specifically restricted for the purchase of certain property and equipment, accounted for as expenditures of the General Fund.

**Farmington Community Library  
Combining Balance Sheet  
Non-major Governmental Funds  
June 30, 2005**

<b>Special Revenue</b>			
	<b>Employee Benefit Fund</b>	<b>Capital Reserve Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 22,605	\$ 37,452	\$ 60,057
Total assets	<u>\$ 22,605</u>	<u>\$ 37,452</u>	<u>\$ 60,057</u>
<b>Fund Balances</b>			
Unreserved:			
Designated for capital improvements	\$ -	\$ 37,452	\$ 37,452
Designated for employee benefits	22,605	-	22,605
Total fund balances	<u>\$ 22,605</u>	<u>\$ 37,452</u>	<u>\$ 60,057</u>

**Farmington Community Library  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Non-major Governmental Funds  
For the Year Ended June 30, 2005**

	<u>Special Revenue</u>		
	<u>Employee Benefit Fund</u>	<u>Capital Reserve Fund</u>	<u>Total</u>
<b>Revenues:</b>			
Interest	\$ 334	\$ 666	\$ 1,000
Total revenues	334	666	1,000
<b>Expenditures:</b>			
General government:			
Fringe benefits	16,124	-	16,124
Total expenditures	16,124	-	16,124
Excess (deficiency) of revenues over expenditures	(15,790)	666	(15,124)
<b>Other financing sources (uses):</b>			
Operating transfers in	17,500	-	17,500
Total other financing uses	17,500	-	17,500
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,710	666	2,376
Fund balances - beginning of year	20,895	36,786	57,681
<b>Fund balances - end of year</b>	<b>\$ 22,605</b>	<b>\$ 37,452</b>	<b>\$ 60,057</b>

**Farmington Community Library  
Special Revenue Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget and Actual  
For the Year Ended June 30, 2005**

<b>Employee Benefit Fund</b>				
	<b>Budgeted</b>		<b>Actual</b>	<b>Variance- Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Interest	\$ 235	\$ 235	\$ 334	\$ 99
Total revenues	235	235	334	99
<b>Expenditures:</b>				
General government	-	-	-	-
Fringe benefits	17,500	17,500	16,124	1,376
Capital outlay	-	-	-	-
Total expenditures	17,500	17,500	16,124	1,376
Excess (deficiency) of revenues over expenditures	(17,265)	(17,265)	(15,790)	1,475
<b>Other financing sources (uses):</b>				
Operating transfers in	17,500	17,500	17,500	-
Operating transfers out	-	-	-	-
Transfer from component unit	-	-	-	-
Total other sources (uses)	17,500	17,500	17,500	-
Excess (deficiency) of revenue and other sources over expenditures	235	235	1,710	1,475
Fund balance - beginning of year	20,895	20,895	20,895	-
<b>Fund balance - end of year</b>	<b>\$ 21,130</b>	<b>\$ 21,130</b>	<b>\$ 22,605</b>	<b>\$ 1,475</b>

Capital Reserve Fund				T o t a l s		
Budgeted		Actual	Variance- Favorable (Unfavorable)	Final Budget	Actual	Variance- Favorable (Unfavorable)
Original	Final					
\$ -	\$ -	\$ 666	\$ 666	\$ 235	\$ 1,000	\$ 765
-	-	666	666	235	1,000	765
-	-	-	-	-	-	-
-	-	-	-	17,500	16,124	1,376
-	-	-	-	-	-	-
-	-	-	-	17,500	16,124	1,376
-	-	666	666	(17,265)	(15,124)	2,141
-	-	-	-	17,500	17,500	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	17,500	17,500	-
-	-	666	666	235	2,376	2,141
36,786	36,786	36,786	-	57,681	57,681	-
\$ 36,786	\$ 36,786	\$ 37,452	\$ 666	\$ 57,916	\$ 60,057	\$ 2,141

August 26, 2005

Board of Directors  
The Farmington Community Library

We have recently completed our audit of the financial statements of the Farmington Community Library for the year ended June 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Board of Directors and others within the organization.

#### **Auditor's Responsibility under Generally Accepted Auditing Standards**

We conducted our audit of the financial statements of the Farmington Community Library (Organization) in accordance with generally accepted auditing standards. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

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An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

### **Auditor's Responsibility for Testing and Reporting on Internal Controls**

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of the Organization's documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the Organization's internal control structure.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion.

Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

### **Significant Accounting Policies**

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. There are no accounting estimates in the financial statements that are sensitive in nature.

### **Audit Adjustments**

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, no significant adjustments were made to the financial statements.

Auditing standards also require us to inform the audit committee about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no unrecorded possible financial statement adjustments.

### **Disagreements with Management**

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the Organization's financial statements or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements or the wording of the auditor's report.

### **Consultation with Other Accountants**

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

### **Comments**

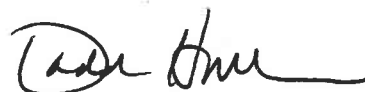
#### **Accounting for the New Millage**

We want to communicate that the Library's management is currently working to modify the existing Chart of Accounts to consolidate the Millage Fund activity with the General Fund. We concur with management after a review of the specific ballot language that a separate fund is no longer needed. We will work with management to review the changes to the Library's Chart of Accounts for consistency with the Chart of Accounts required by the State Department of Treasury.

We would like to thank the Library and its staff for the cooperation afforded us during the audit. We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

PLANTE & MORAN, PLLC



Tadd Harburn, CPA